Service Date: June 26, 1979

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application by THE MONTANA POWER COMPANY for authority to adopt increased rates for natural gas service in the State of Montana .	) DOCKET NO. 6618)) ORDER NO. 4521))

APPEARANCES

APPLICANT:

MARK A. CLARK, Attorney at Law, 40 East Broadway, Butte, Montana, appearing on behalf of the Applicant.

ROBERT E. SULLIVAN, Attorney at Law, 40 East Broadway, Butte, Montana, appearing on behalf of the Applicant.

PROTESTANTS:

GEOFFREY L. BRAZIER, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana, appearing on behalf of the consuming public of the State of Montana.

JOHN C. DOUBEK, Attorney at Law, of the firm of Small and Hatch, Power Block, Helena, Montana, appearing on behalf of the Montana Consumer Counsel.

INTERVENORS:
JAMES A. ROBISCHON, Attorney at Law of the firm of Poore, McKenzie, Roth, Robischon and Robinson, PC, 1341 Harrison, Butte, Montana, appearing on behalf of the Anaconda Company.

KARLA M. GRAY, Attorney at Law, P.O. Box 689, Butte, Montana, appearing on behalf of the Anaconda Company.

THOMAS J. BERNING, Attorney at Law, 3538-12th Avenue South, Great Fails, Montana, appearing on behalf of Montana's Power to the People.

RICHARD F. GALLAGHER, Attorney at Law of the firm of Church, Harris, Johnson and Williams, P.O. Box 1645, Great Falls, Montana, appearing on behalf of Great Falls Gas Company.

ALAN F. CAIN, Attorney at Law of the firm of Hughes, Bennett and Cain, 406 Fuller Avenue, Helena, Montana, appearing on behalf of Stauffer Chemical Company.

C. W. LEAPHART, JR., Attorney at Law of the Leaphart Law Firm, 1 North Last Chance Gulch, Helena, Montana, appearing on behalf of Champion International.

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EDWARD C. ALEXANDER, Attorney at Law of the firm of Alexander, Kuenning, Miller and Ugrin, P.O. Box 1744, Great Falls, Montana, appearing on behalf of the Shareholders' Committee.

FOR THE COMMISSION:
FRANK E. BUCKLEY, Administrator, Utility Division
JUDITH M. CURTIS, Economist
DAN ELLIOTT, C. P.A.
ElLEEN E. SHORE, Counsel

BEFORE:
GORDON E. BOLLINGER, Chairman
CLYDE JARVIS, Commissioner
THOMAS J. SCHNEIDER, Commissioner
JAMES R SHEA, Commissioner
GEORGE TURMAN, Commissioner

FINDINGS OF FACT
PART A
GENERAL

1. On September 29, 1978, Montana Power filed with the Commission its application for authority to increase rates for natural gas service. If approved in their entirety, the proposed rates would generate additional test year revenues of $23,345,716. (This figure was revised upward to $23,853,214 at the May 21, 1979 hearing - See Finding No. 6.)

2. The application was assigned Docket No. 6618. A Notice of Pre-hearing Conference in this Docket was issued on October 4, 1978. At the conference, held October 24, 1978, rules for the disposition of the case were formulated including rules of procedure, discovery, intervention and other related matters. The public hearing on the Company's request was scheduled to begin on March 20, 1979. A procedural order was issued on November 2, 1978.

3. Following a motion by the Montana Consumer Counsel, the Commission issued an Amended Procedural Order on January 24, 1979 which separated the proceeding in this Docket: all issues except rate structure were to be considered at the March 20th hearing; rate structure was to be covered in a later hearing, now scheduled to commence July 10, 1979. Deadlines for some discovery, the responses thereto and the filing of testimony -by Montana's Power to the People and District X I Human Resources Council were revised in the same Amended Procedural Order.

4. On February 23, 1979, the Commission received the motion of Applicant for approval of temporary rate increases which would yield $20,296,000 of additional annual revenues "or such other amount as the Commission concludes is supported by the record before it in this Docket; "consideration of the motion was deferred by the Commission until the March hearing was completed. The Company's motion was renewed on March 23rd at the close of Phase I hearings; at its April 9th agenda meeting, the Commission deferred action on that motion until scheduled satellite hearings were held. On May 21, 1979, Montana Power again sought approval of interim rate relief; this motion was denied May 29th because a final order on permanent rate increases was expected shortly

5. Commencing on March 20, 1979 and continuing through March 23, a duly noticed public hearing was held in the Montana Department of Highway's Auditorium, 2701 Prospect Avenue, Helena, Montana. Testimony was received from witnesses testifying on behalf of Montana Power, the protestant and intervenors; public witnesses were also heard. In addition, a number of satellite hearings were held throughout the state: Great Falls, April 17th; Havre, April 18th; Missoula, April 24th; Kalispell, April 25th; Bozeman, April 27th; Livingston, April 30th; Butte, May 2nd; Anaconda, May 8th; Helena, May 17th; and Red Lodge, May 24th.

6. After closing the Phase I hearing in March, the Commission was informed of two recent developments relevant to the Applicant's revenue requirements in this Docket; these events were the increase in the Canadian international border price for natural gas and Federal Energy Regulatory Commission approval of MPC's sale of gas to the Northern Natural Gas Company. On April 17, 1979, the Montana Commission voted to reopen the Phase I hearing to take additional evidence relating to these two issues. A hearing was scheduled for May 21 and held in the House Chambers of the Capitol Building, Helena, Montana on that date.

7. The Montana Consumer Counsel has participated on behalf of utility consumers in this Docket since the inception of these proceedings.

8. Cost of service and rate base amounts discussed in this order are those filed in response to the April 17, 1979 Commission order reopening the revenue requirements phase of this Docket. The amounts so filed reflect the following--which constitute changes in both MPC and MCC testimony in many instances from that filed before the first hearing in the revenue requirements phase:

(A) A Canadian international border price for gas of $2.30 per Mcf;

(B) The sale between Northern Natural Gas Company and MPC;

(C) The conversion of Kaiser Cement Company from natural gas to coal;

(D) A federal income tax rate of 46%; and

(E) A U. S . Canadian monetary exchange rate of 85%.

PART B

RATE OF RETURN

Capital Structure

9. In his testimony filed with the Company's application, Frank V. Woy, Treasurer, relied on the December 31, 1977 capital structure adjusted for known changes through July 31, 1978 and allocated to the natural gas utility. This capitalization was chosen as the most recent available and proper to assign costs to customers of the gas department.

10. Dr. John W. Wilson, who presented expert testimony for the Montana Consumer Counsel, employed the Company's November 1978 capitalization in making his rate of return recommendation. Before allocating capital to the natural gas utility, Wilson subtracted from total utility common stock the electric plant acquisition adjustment, Mystic Lake FPC fair value, net nonutility property, investment in subsidiaries and other investments consistent with the Commission's exclusion of these amounts from utility rate base .

11. Capitalization was updated to December 31, 1978 and adjusted for $50 million of first mortgage bonds sold during January, 1979 in Woy's rebuttal testimony. With updating and adjustment, the resulting capital structure is the most recent presented to the Commission.

12. The Commission is persuaded that the capital structure used to determine a fair rate of return should be based on the most recent capitalization available. Consequently, the December 31, 1978 Montana Power capital structure adjusted for bonds sold during January, 1979 is adopted as the starting point in determining capitalization for the natural gas utility.

13. Cross-examination of Woy revealed that allocation of capital to the natural gas utility was largely based on the ratio of natural gas to total utility net plant (Tr., Vol. II, p. 225). The witness also acknowledged that total utility net plant included portions of the Mystic Lake and Milwaukee Line properties removed from electric utility rate base by Commission order as well as the excess of purchase price over original cost for Missoula water disallowed in the water utility rate base.

14. Agreeing with Montana Power, the Commission believes that capital should be allocated to the natural gas utility department on the basis of net plant. Unlike the Company, however, the Commission finds that net plant should be

defined in a manner consistent with that used in computing rate base. As a consequence, electric utility net plant must be reduced by the amount of electric plant acquisition adjustments and the value of Mystic Lake and Milwaukee Line properties eliminated from rate base; water utility net plant should exclude water plant acquisition adjustments and the excess of purchase price over original cost depreciated for Missoula water.

15. When the actual December 31, 1978 Montana Power capitalization is adjusted for the January, 1979 mortgage bond sale and the non-rate-bate items described above, the following capital structure is found for the natural gas utility:

Type of Capital	Amount	Percent of Capitalization
Long-term Debt	$ 77,008,930	58.87
Preferred Stock	11,151,110	8.52
Common Stock	42,655,770	32.61
Total	$130,815,810	100.00

Cost of Long-term Debt

16. According to the testimony of its treasurer, Montana Power had an embedded cost of long-term debt for its natural gas utility operations of 8.76 percent; this cost was for year end 1978 with adjustment for first mortgage bonds sold in January, 1979. The cost was found as a weighted average of those for first mortgage bonds, sinking fund debentures and the 9 percent natural gas production payment.

17. Wilson computed an 8.40 percent cost for long-term debt. To derive this cost, Wilson assigned 20.50 percent of utility debt or $62,101,000 to natural gas operations; allocation was determined by the ratio of natural gas net plant to total utility net plant, exclusive of common plant. After attributing all 9 percent gas notes to the natural gas utility, Wilson assigned a portion of first mortgage bonds and sinking fund debentures to gas operations. Wilson's debt cost was lower than that found by the company because his testimony was prepared before the 9-7/8 percent first mortgage bonds were issued in January, 1979.

18. Because the January, 1979 bonds were included in the utility's capital structure, their cost should properly be made part of that for debt. All gas notes were assigned to natural gas operations and sufficient total utility debt to total $77,008,930. Accordingly, long-term debt bears a weighted cost of 8.76 percent.

Cost of Preferred Equity

19. Woy and Wilson agreed to a cost of 7.51 percent for preferred equity capital. The Commission finds their computations correct and deems 7.51 percent the cost of preferred equity.

Cost of Common Equity

20. Testimony on the cost of common - equity capital was presented by Messrs. Eugene W. Meyer and Robert E. Evans, on behalf of the Montana Power Company, Mr. Miller A. Mathews, for the Shareholders' Committee, and Dr. John W. Wilson, on behalf of the Consumer Counsel.

21. Mr. Meyer, Vice-president and Director of Kidder, Peabody & Co., Incorporated, testified on investor requirements "necessary to provide sufficient return to investors to enable The Montana Power Company...to attract capital in the amount needed so that the service requirements and growth requirements in the area served by the Company can be met at a reasonable cost." (Exh. 9, p. 2). For new common equity capital, Meyer found a cost of 14.93 percent. This cost was based on the perceived need to maintain a 20 percent premium of market price over book value and the observation that the common stock investor demands a 3 to 5 percent differential over utility bond yields. The 20 percent market-to-book premium was justified as follows: common stock sold to the public must yield net proceeds of no less than book value per share; based on historical experience, a 20 percent premium is required to allow for any general market decline, issuance pressure, underwriting costs and other corporate expenses. Because common stock ownership is more risky than holding bonds, equity investors require a higher return, amounting to a 3 to 5 percent differential in Meyer's opinion.

22. Although his methodology differed, Mr. Evans, a consultant with Foster Associates, inc., derived a fair rate of return recommendation which was very close to the investor requirement found by Meyer. Evans drew a distinction between the current cost of common equity capital and the fair rate of return. With an original cost rate base and recent inflation, the current cost of capital underestimates, according to Evans, the rate of return necessary to produce the fair return mandated in the Hope and Bluefield decisions. Despite arguing for a higher return, Evans computed the current cost of common equity capital using the discounted cash flow (DCF)approach; the result was a cost in the 13.5 to 14 percent range, with the focus on 13.75 percent.

Following the DCF methodology, the cost of capital was computed as the sum of the stock's dividend yield and the growth rate for dividends. Estimation of the

cost relied on data for four groups of comparable companies as well as Montana Power; the four groups were: 85 large electric and electric-gas utilities, 22 of the 85 utilities not dominated by electric operations, 33 manufacturing firms with A- Standard and Poor's stock rankings and 60 manufacturers with stability comparable to the 85 utilities. Giving greater weight to estimates for the unregulated manufacturing groups, Evans found a current cost of capital equal to 12.75 to 13.25 percent. A 5.5 percent allowance for market pressure and financing costs raised the estimated equity capitalization rate to the 13.5 to 14.0 percent range.

23. In his prefiled testimony, Evans stated, "The essential difference in the two approaches is that the current cost of capital methodologies look to returns required in relation to current market prices or values, whereas the comparable earnings approach examines required returns in relation to historical costs of book equity." - (Exh. 37, p. 41) Due to this perceived difference, Evans' rate of return recommendation was based on a comparable earnings analysis. The companies deemed comparable were the 33 and 60 manufacturers used in the DCF approach; to avoid circularity, little weight was given to the earnings experience of regulated utilities where actual earnings depend on authorized returns. Since 1975, the two manufacturing groups have enjoyed equity returns of 14.3 to 15.2 percent. Because the recent trend has been upwards, Evans advocated an allowed return for Montana Power in the upper end of this range, specifically 14.75 to 15.0 percent with the focus on 14.8 percent.

24. Miller A. Mathews, senior vice-president and investment officer of the Northwestern Union Trust Company, Helena, testified on rate of return on behalf of a committee of Montana Power shareholders. Relying on a risk-differential approach, Mathews opined that common equity investors require a return of at least 14 percent, the current yield on bonds plus a 3 to 5 percent differential to compensation for the greater risks of equity ownership. (Exh. 0, p. 10)

25. The final rate-of-return witness was Dr. John W. Wilson, an economist whose testimony was sponsored by the Consumer Counsel. Relying on both comparable earnings and DCF approaches, Wilson derived a rate-of-return recommendation of 13 percent. Three groups of companies were used in the comparable earnings analysis: utility companies, Business Week's survey of earnings for regulated and unregulated industries-and, for illustrative purposes, a list of some unregulated firms earning from 9 to 11 percent on common equity. Based on his study of these groups, Wilson concluded that "a common equity return on gas utilities operations of approximately 12 percent is required to attract capital

and to fairly compensate the stockholders of the Montana Power Company. " (Exh. B, p. 34)

26. Like that of Evans, Wilson's discounted cash flow analysis rests on the assumption that the current price for a share of common stock is equal to the present value of expected cash flows from ownership which include dividends and price appreciation. The discount rate which yields the present value is the required rate of return on stockholders' equity.

27. Rather than applying the DCF technique to data for Montana Power alone, Wilson chose a group of 15 gas distributing companies and estimated current dividend yields and expected dividend growth for the group. Wilson contended that group analysis was preferable to that of an individual company because group averages are more stable and give a better indication of investor expectations and because use of the group allows statistical analysis. Combining the current dividend yield for the 15 gas utilities of 8.86 percent with the expected growth rate of 3 to 4 percent based on historic changes in dividends and earnings per share, Wilson estimated a 12.65 percent return requirement by investors in gas utility common stocks.

28. A refinement of the DCF formula allowed adjustment of the group determined return requirement for the common-equity ratio of an individual utility. Through estimation of a regression equation, Wilson found that a one percent increase in the common equity ratio is associated with a decrease of 0.048 percent in the dividend yield. Applying this observation to Montana Power's equity ratio which is lower than the 15-company average, Wilson calculated an adjusted cost of common equity capital of 12.72 percent for MPC.

29. Although he recognized that market pressure should be considered a cost of service, Wilson testified that market pressure "is probably nonexistent, or that it is so small as to be negligible."
(Exh. B, p. 64) This conclusion was based on he results of Scholes' study of secondary common stock offerings, a comparison of yields on outstanding and newly issued utility bonds, an analysis of market pressure for public utility common stock offerings and an examination of the pressure associated with MPC's 1974 and 1975 common stock issues.

30. Not deemed insignificant by Wilson were the expenses incurred in the issuance of common stock; these expenses include the underwriting spread and any other costs which must be paid by the company from net proceeds. Since early 1976, issuance costs have averaged approximately 2 to 3 percent, in Wilson's estimation. Thus, the total necessary allowance for market pressure and

the expenses of issue was determined to be no more than 3 percent of net proceeds. Adding the 3 percent allowance to the current dividend yield component of the 12.72 percent return required by investors produces a total cost of common equity of approximately 13 percent.

31. After weighing the record evidence dealing with rate of return, the Commission finds that 12.72 percent constitutes a fair return on common equity for the natural gas operations of the Montana Power Company. This conclusion is essentially an acceptance of Dr. Wilson's recommendation and results from the following analysis.

32. Both Meyer and Mathews relied on risk-differential approaches in making their assessments of investor requirements. They argued that the necessary return to common stockholders was the current bond yield plus a fixed increment of 3 to 5 percent to compensate for the higher risks borne by equity investors. To cover market pressure, general declines in market prices and issuance costs, Meyer claimed that a 20 percent market-to-book premium was necessary. The analyses of Meyer and Mathews are judged deficient since each has failed to demonstrate the need for an equity return which exceeds a company's bond yield by a fixed amount. Having reviewed the recent relationship between the cost of common equity and bond yields, Wilson concluded that the differential between the two varied substantially and might, in some economic conditions, be negative; Evans agreed a negative differential was possible.

33. Although their methodologies were similar, Evans and Wilson differed in the perceived relationship between the cost of capital and a fair rate of return and in the weight given to comparable earnings analysis. Evans argued that the current cost of capital is less than a utility's fair rate of return when an original cost rate base is used. In his opinion, granting a return equal to the cost of capital would fail to satisfy the comparable earnings criterion established by the Hope and Bluefield decisions. To insure a fair rate-of return, therefore, Evans chose to base his recommendation on groups of unregulated companies with bond ratings and earnings stability similar to those of Montana Power.

34. In contrast, Wilson testified that the cost of capital, including an allowance for flotation costs and any market pressure which exists, was equivalent to a fair rate of return. By setting the allowed return at the level of capital costs plus issuance expenses, additional common stock in the utility could be sold with net proceeds equal to book value, avoiding dilution according to Wilson.

The current cost of capital is, thus, synonymous with a fair rate of return. Wilson determined the cost of common equity using the DCF method which assumes the equality of current market price and the discounted value of future returns; following algebraic computation, the discount rate or required return on common equity becomes the sum of the present dividend yield and anticipated growth in dividends. Despite his conduct of comparable earnings studies, which yielded a 12 percent return requirement, Wilson placed greater weight on: the results of his discounted cash flow analysis.

35. During cross-examination by Mr. Leaphart, Wilson described the cost of capital/fair rate of return controversy between himself and Evans as "a very basic conceptual philosophical difference;" Wilson continued, I believe that any rate of return allowance in excess of the cost of capital would be a total-unwarranted windfall for the utility company. ... The company should be permitted to earn and charge rates which cover the costs of doing business including the costs of capital and including a fair profit. if the commission allows more than that, it's not doing its job. It is permitting monopolistic excesses to occur. And I think this would be diametrically opposed to the purposes and objectives of price regulation. " (Tr., Vol. III, pp. 475-6)

The Commission is persuaded that granting Montana Power a return equal to the cost of capital plus any necessary allowance for market pressure and issuance expenses provides the utility an opportunity to earn a fair return on its investment. To permit more in compensation for past inflation, as Evans suggests, contributes to future price increases and unduly enriches stockholders at the expense of ratepayers. A consideration of anticipated inflation is inherent, and properly so, in the DCF method used by the Commission.

36. In his rebuttal testimony labeled Exhibit 39, Evans questioned the ability of the current cost of capital to yield returns which are comparable to those earned by other enterprises with similar risks. (p.3) Wilson reminded the Commission that the discount rate used in the DCF formula is an opportunity-cost "that will provide a competitive rate of return for the company in question. Moreover, since R [the discount rate] is equivalent to the rate of return that investors can obtain from comparable alternative investments, the result not only corresponds to the capital attraction requirements, it conforms to the comparable earnings requirement as well . " (Exh. B, p. 45)

Properly applied, the discounted cash flow procedure computes a cost of capital which satisfies the capital attraction, financial integrity and comparable earnings standards enunciated in the I lope and Bluefield decisions.

37. Estimation of equity capital costs using the DCF formula requires calculation of the current dividend yield and the expected rate of dividend growth. Rather than relying on financial data for Montana Power alone, both Evans and Wilson chose to rely on information derived from a group or groups of comparable companies. Each witness found a current yield in excess of 8 percent:

Evans found 8.5 percent for his utility groups and Wilson 8.86 for his.

38. From his analysis of historic dividend, earnings and book value changes, Evans estimated that utility investors expect dividends to grow by 4.25 to 4.75 percent annually. Wilson, on the other hand, derived an actual weighted average growth rate of dividends using correlations between dividend yield and growth rates in dividends and earnings per share during various periods for weighting. His weighted average growth rate was 3.79 percent. Combining the two components of the DCF formula, Evans computed a cost of capital in the 12.75 to 13.25 percent range while Wilson's figure was 12.65 percent; application of the regression equation described above to Montana Power's equity ratio raised the matter's estimate to 12.72 percent. Despite some differences in procedure, Evans and Wilson found very similar costs of capital, suggesting the basic soundness of their analyses. The Commission accepts 12.72 percent as the best estimate of the cost of common equity capital in this proceeding.

39. Considerable debate surrounded the-return increment necessary to compensate stockholders for any market pressure and flotation costs associated with the issuance of additional shares of common equity. The Commission believes that no increment is required. Because it is meant to cover the costs of issuing new stock, an allowance is called for only when the company anticipates selling additional common equity. The utility has not had a common stock offering since 1975. On cross-examination, Woy testified that Montana Power had no plans to issue common stock during 1979; planned outside financing was through debt and preferred stock.

(Tr., Vol. II, pp. 223-4) Sale of the Missoula and Superior water operations was scheduled to be consummated within 60 to 90 days from the close of the hearing (Tr., Vol. IV, p. 758), reducing the need for external financing. Since company officials have expressed no intention market additional common stock in the near future, the Commission believes that retained earnings will provide equity capital sufficient for the utility's needs and that a return allowance to compensation for market pressure and issuance costs would be improper and unnecessary at this time.

40. In Order No. 4350D of Docket No. 6454, it was suggested that Montana Power consider treating issuance costs and pressure as a cost of service in future applications rather than as a return-on-equity increment (see Finding of Fact No. 93); the Commission continues to hold this belief. The amortization of marketing expenses for common stock (as is now the case with debt discounts and premiums) over the anticipated interval between sales would insure that the costs are recovered, but not over-recovered, a possibility with the return-increment method.

41. The 12.72 percent determined to be the cost of common equity capital in Finding of Fact No. 38 constitutes a fair rate of return to common shareholders. Combining this return with the costs of debt and preferred equity found previously results in a weighted cost of capital and required overall rate of return equal to 9.95 percent for Montana Power's natural gas operations calculated as follows:

Type of Capital	Amount	Percent of Capitalization	Cost	Weighted Cost
Long-term Debt	$ 77,008,930	58.87	8.76%	5.16%
Preferred Stock	11,151,110	8.52	7.51%	.64%
Common Stock	42,655,770	32.61	12.72%	4.15%
Total	$130,815,810	100.00		9.95%

NATURAL GAS-SOURCE OF SUPPLY

General

42. Canadian Montana Pipe Line Company, a wholly-owned subsidiary of The Montana Power Company, has the following licenses for the export of natural gas: GL-5, GL-17, GL-25, and GL-36.

43. The annual volumes associated with the above licenses permit a total of 34.2 billion cubic feet of gas to be exported at either the Aden Export Point or the Carway Export Point so long as the total amount exported at the Aden Export Point does not exceed 20 billion cubic feet.

44. The Montana Power Company buys all of the gas that the Canadian-Montana Pipeline Company exports at the Alberta-Montana border for use in MPC's gas system in Montana.

45. The total volume of remaining reserves associated with the Canadian permits was 242 billion cubic feet as of January 1, 1979.

46. At the present take of gas, the volumes associated with the export licenses will expire before the terms of the licenses. This is estimated to occur in 1986 or 1987.

47. The Aden deliver ability or capability is about 15 billion cubic feet.

48. Canadian-Montana Pipe Line Company has an application before the National Energy Board of Canada for a new Aden license and an amendment for existing licenses to allow them to take 10 billion cubic feet a year from Aden for years 1980 through 1987, and to restore 80 billion cubic feet to the Carway licenses.

49. The estimated reserves for Montana Royalty Gas are approximately 100 billion cubic feet.

50. MPC had a spot or emergency sale of approximately 1.237 billion cubic feet to Montana-Dakota Utilities during 1979.

51. MPC has entered into a displacement contract with MDU for the sale of approximately 2.834 billion cubic feet of gas annually for two years. Initial delivery will occur within thirty days after MDU has gained approval from the Federal Energy Regulatory Commission and the four appropriate state regulatory agencies.

52. Two terms of the original MPC-MDU contract were changed to overcome objections of the Wyoming Commission. The term of the original contract was for five years, while the term for the displacement contract is for two years. Under the displacement contract the delivery point was such that gas delivered to MDU could only be delivered and used in Montana. Under the terms of the original contract, there will be two delivery points, one of which will allow delivery of gas into the State of Wyoming.

53. The take-or-pay deficiency volumes of Canadian gas at January 1, 1979 was 9.21391 billion cubic feet.

54. Canadian-Montana Pipeline purchases gas from Alberta and Southern Gas Co., Ltd. The contract volume is for 29.2 bcf at 14.73 psia of which 90% or 26.28 bcf is associated with take-or-pay volumes. The 26.28bcf at 14.73 is 25.98 bcf at 14.9 psia.

55. Testimony established that prices imposed by the National Energy Board of Canada and the Federal Government under terms of the National Energy Act were beyond the control of the utility.

It also was established that vigorous competition existed for new natural gas within the region; accordingly, purchases tended to be made at ceiling or maximum comparable prices.

Actual Sources

56. The Commission has before it a wide variety of evidence depicting Applicant's sources of natural gas supply. The beginning point of the analysis, however, should be Applicant's actual 1977 gas mix. The following table shows the sources of supply, volumes, and costs for 1977:

MPC 1977 Actual Gas Costs

	Mmcf Volumes 14.9	¢/Mcf.	Value in U.S. Funds @ 14.9
Carway Line - Detail of Purchases	17,155	219.9¢	$36,183,505
Purchases for Montana System			
M.D.U.			
Trans Canada			
Emergency Sale	2,966	195.8¢	5,807,026
Other Sales	122	212.4¢	259,108
Total Carway Purchases	20,243	208.7¢	$42,249,639
Less Dedicated Sales			
M.D.U.			
Trans Canada			
Emergency Sale	(2,966)	195.8¢	(5,807,026)
Other Sales	(122)	212.4¢	(259,108)
Net Carway Gas to Montana System	17,155	210.9¢	$36,183,505
Gas Purchases from Aden			
Wellhead Purchases		109.4¢	$ 3,689,727
Sale & Repurchase of Purchased Gas	3,373	54.8¢	1,847,468
Total Canadian Purchased Gas, Line 2, 10&11	20,528		$41,720,700
Montana Purchased Gas	7,465	98.5¢	$ 7,355,869
Canadian Fee Gas	485	53.0¢	256,865
Canadian Royalty Gas		46.1¢	3,673,217
Sale and Repurchase of Canadian Royalty Gas	7,981	53.6¢	4,275,664
Montana Royalty Gas	13,281	9.1¢	1,206,506
Net Purchase and Royalty Gas (Costs to Supply Montana Requirements)	49,740		58,488,821
Storage Gas - Injected	(10,966)	197.9¢	(21,706,255)
Withdrawn	9,700	191.8¢	18,601,619
Net to Montana Power Co. Gas System	48,474		$ 55,384,185

MPC's Revised Sources

57. The Applicant's revised source of supply, which was normalized for known changes and reflected the international border at $2.30 (U.S.) and the sale to Northern Natural Gas Company, is shown in the following table:

	MMcf Volumes 14.9	¢/Mcf.	Value in U.S. Funds @ 14.9
Carway Line - Detail of Purchases			
Purchases for Montana System	13,921	234.8¢	$ 32,679,756
M.D.U.	2,824	234.8¢	6,654,232
Trans Canada	8,542	134.3¢	11,471,906
Northern Natural	6,457	234.8¢	15,161,039
Total Carway Purchases	31,754		$ 65,966,933
. Less Dedicated Sales			
M.D.U.	(2,834)	246.3	(6,980,142)
Trans Canada	(8,542)	134.3	(11,471,906)
Northern Natural	(6,457)	236.4	(15,264,348)
Gas Purchases from Aden	13,921		$ 32,250,537
Wellhead Purchases	3,050	118.4	$ 3,611,200
Sale & Repurchase of Purchased Gas		76.4	2,330,200
Total Canadian Purchased Gas	16,971	225.0	$ 38,191,937
Montana Purchased Gas	14,587	192.4	$ 28,065,388
Canadian Fee Gas	433	76.4	330,812
Canadian Royalty Gas		52.7	3,749,605
Sale & Repurchase of Canadian Royalty Gas	7,115	76.4	5,435,860
Montana Royalty Gas	7,689	7.6	584,364
Net Purchase and Royalty Gas	46,795		$ 76,357,966
Storage Gas - Injected	(5,832)	225.0	(13,122,000)
- Withdrawn	4,349	225.0	9,785,250
Net to Montana Power Co. Gas System	45,312		$ 73,021,216

58. MPC's revised test year gas supply assumed the following:

A. Purchases from the Carway Line at a maximum take of the contract volumes; 31.754 bcf at 14.9 Psia.

B. Maximization of make up of take-or-pay gas deficiency and payments already incurred under A & S Contract. This would amount to 5.774 bcf at 14.9 psia annually.

C. Dedicated sales to: (1) MDU of 2.834 bcf (14.9 psia), (2) Trans Canada of 8.542 bcf (14.9 psia) and (3) Northern Natural of 6.457 bcf (14.9 psia).

D. Reduction in gas from Carway to the Montana market being made up with increases in Montana Royalty gas production and an increase in the gas taken from the Aden import point.

E. A maximum of 10 bcf of gas annually from Aden.

F. Montana Purchased gas volumes, 14.587 bcf at 14.9 psia, at a level which approximates the minimum level of gas from that source which would avoid take-or-pay deficiencies.

G. Montana Royalty Gas volumes, 7.689 bcf at 14.9 psia, at levels which approximates the level of new annual additions to Montana royalty gas which MPC has experienced in recent years and which provides flexibility by providing a source of gas free of take-or-pay commitments, to meet A higher level of production of this source would be imprudent since It would impinge on supply from this source in future years.

H. A net source of supply of 45.312 bcf at 14.9 psia to serve a market of approximately 44.596 bcf at 14.9 psia. This includes industrial sales of approximately 13.655 bcf.

Montana Consumer Counsel's Revised Sources

59. MCC's George Hess presented revised testimony and exhibits at the May hearing which challenged several of the MPC assumptions concerning sources of gas and prices. His revised gas mix consisted of the following sources and costs:

	MMcf @ 14.9 (A)	¢/Mcf (B)	Cost (000) (C)
Carway			
Montana Power	11,744	234.8	$ 27,575
MDU	1,237	234.8	2,904
Trans Canada	8,542	134.3	11,472
Northern Natural	6,457	234.8	15,161
Total Carway	27,980		57,112
Less Dedicated Sales			
MDU	(1,237)	246.3	(3,047)
Trans Canada	(8,542)	134.3	(11,472)
Northern Natural	(6,457)	236.4	(15,264)
Net Carway Gas to Montana	11,744		27,329
Aden Wellhead Purchases	3,050	118.4	3,611
Sale & Repurchase		76.4	2,330
Total Canadian Purchased Gas	14,794	224.9	33,270
Montana Purchased Gas	16,488	192.4	31,722
Canadian Fee Gas	433	76.4	331
Canadian Royalty Gas	7,115	52.7	3,750

Sale & Repurchase		76.4	5,436
Montana Royalty Gas	8,789	7.6	668
Net Purchased Royalty Gas	47,619		75,177
Storage Gas - Injected Withdrawn	(5,832)	224.9	(13,116)
Net to Montana	46,136		$71,842

Summary

Pro Forma Royalty Expense	4,418
Pro Forma Other Gas Supply Expense (excluding wellhead expenses)	67,424
Wellhead Expense	33
Total Pro Forma Other Gas Supply Expense	67,457

60. Mr. Hess' revised testimony and exhibits followed the same general methodology as had the Applicant's testimony and exhibits. However, his revised gas source mix contains several significant differences from the applicant's May, 1979 revisions. The following are his assumptions concerning the differences.

A. Purchases from the Carway line at an amount of 27.980 bcf at 14.9 psia, which would allow the company a make-up of the take-or-pay - gas deficiency incurred under the A & S contract of 2 bcf annually at 14.9 psia.

B. Dedicated sales to: (1) MDU of 1.237 bcf at 14.9 psia.

C. Reduction in gas from Carway to the Montana market being made up with increases from Aden import point and from Purchased and Montana Royalty production.

D. A net source of supply of 46.136 bcf at 14.9 psia to serve a market of approximately 45.305 bcf at 14.9 psia. This includes industrial sales of 14.364 billion cubic feet.

PSC'S Sources Used for Rate Making

61. The following table contains the 1977 test year pro forma gas supply costs which the Commission has used for rate making:

Montana Power Company

Pro Forma Gas Supply Costs

1977 Test Year

	MMcf @ 14.9	¢mcf	Cost (000)
	(A)	(B)	(C)
Carway			
Montana Power	10,147	234.7	$ 23,815
MDU	2,834	234.7	6,651
Trans Canada	8,542	134.3	11,472
Northern Natural	6,457	234.7	15,155
Total Carway	27,980		57,093
Less Dedicated Sales			
MDU	(2,834)	246.3	(6,980)
Trans Canada	(8,542)	134.3	(11,472)
Northern Natural	(6,457)	236.4	(15,264)
Net Carway Gas to Montana	10,147		23,377
Aden			
Wellhead Purchases	3,559	121.0	4,306
Sale & Repurchase		76.4	2,719
Total Canadian Purchased Gas	13,706	221.8	30,402
Montana Purchased Gas	16,654	192.4	32,042
Canadian Fee Gas	477	76.4	364
Canadian Royalty Gas	7,827	54.0	4,226
Sale & Repurchase		76.4	5,980
Montana Royalty Gas	8,955	7.6	681
Net Purchased & Royalty Gas	47,619		73,695
Storage Gas - Injected	(5,832)	221.8	(12,935)
Withdrawn	4,349	221.8	9,646
Net to Montana	46,136		70,406
Summary			
Pro Forma Royalty Expense			4,907
Pro Forma Other Gas Supply Expense			
(excluding wellhead expenses)			65,499

Wellhead Expense	33
Total Pro Forma other Gas Supply Expense	65,532

62. Carway volumes of gas are 27.980 bcf. This includes 2 bcf over and above the take-or-pay volume of 25.98 bcf at 14.9 psia. This allows Applicant to make up take-or-pay deficiencies in four to five years.

63. MPC has dedicated sales of the following: (1) MDU - 2.834 bcf; (2) Trans Canada - 8.542 bcf; and (3) Northern Natural - 6.457.

64. The reduction in gas from Carway to the Montana market will be made up with gas from the Aden Import Point and equal amounts of Montana Purchased and Montana Royalty gas.

65. The Montana Royalty Gas reserve volumes of approximately 100 bcf would be depleted as follows:

(1) Actual 1977 use - 7.53 yrs
(2) MPC's pro-forma use - 13
(3) Hess revised - 11.38 yrs
(4) PSC adjusted - 11.17 yrs

66. The Commission finds that its pro-forma Montana Royalty volumes are: (a) more prudent than MPC's actual 1977 Montana Royalty take (b) within the range of that recommended by Montana Consumer Counsel, and (c) within two years of that recommended by Applicant.

67. A net source of supply of 46.136 bcf at 14.9 psia to serve a market of approximately 45.305 bcf at 14.9 psia. This includes industrial sales of 14.364 bcf which is the most recent forecast of MPC for 1979 operating year.

68. The following cost of service recommendations appear on the record in this proceeding:

(000)	Actual 1977 Consolidated	Applicant's Pro Forma Adjustments	Consumer Counsel's Pro Forma Adjustments
GROSS REVENUES	90,576	3,734	5,116
COST OF SERVICE			
Production - Operation (Excluding			

Royalties)	2,003		
Production Operation - Royalties	4,880	(546)	(462)
Maintenance	711		
Exploration & Development	3,206	950	950
Other Gas Supply	56,344	12,376	11,112
Storage - Operation	154		
Maintenance	82		
Transmission - Operation	446		
Maintenance	376		
Distribution - Operation	1,614		
Maintenance	687		
Customer Accounts Expense	1,116	85	85
Customer Service & Information	148	40	40
Sales Expense	134	(57)	(57)
Administrative & General	3,912	547	
Labor Adjustment		836	836
Clearing Adjustment		65	65
Postage Adjustment		8	8
Sub-total	75,813	14,304	12,964
Depreciation	4,272	979	322
- Amortization of - Investment Tax - Credit - Dr.	0	0	0
Amortization of Investment Tax Credit - Cr.	(73)	(1)	(1)
Provision for Deferred Income Tax Lib. Depr.	932	(21)	(22)
Deferred Inc. Tax-Amort. of Certain Purch. Nat. Gas Properties	1,177	(1,145)	(746)
- Provision for - Deferred Income Tax Corp. Lic. Tax	333	(157)	(197)
Amortization of Property Losses	72		
Taxes Other than Income Tax	3,117	436	382
Income Taxes – Federal & Canadian	(3,298)	(3,947)	(3,367)
Income Taxes - Corp.			

License Tax	(1,586)	312	397
Sub-total	4,946	(3,544)	(3,232)
Total	80,759	10,760	9,732
Utility Operating Income	9,817	(7,026)	(4,616)
Amortization of Profit on Debt			
Reacquired at Discount	-0-	45	45
Balance for Return	9,817	6,981	4,571

69. Pro forma adjustments to be discussed are as follows:

A. MPC witness Doran has included $228,000 in test year expenses for self insurance purposes. MCC witness Hess has included $68,000.

B. MPC has included the results of a depreciation study performed by Gilbert Management Consultants, including a change from the average life method of depreciating certain gas production properties to the units-of-production method and the use of a negative 70% salvage value for certain gas services. Witness Hess has accepted the results of the study, but has used the average life depreciation method for gas properties and a 40% negative salvage value for gas services.

C. MPC has used property taxes based on December 31, 1977 assessments while the MCC has used property taxes based on December 31, 1976 assessments with adjustments for known mill levy changes.

D. MPC used an estimate of interest allocable to the gas utility to compute income taxes while witness Hess used Mr. Wilson's weighted cost of debt times the MCC rate base plus CWIP.

E. Both MPC and MCC witness Hess used an inflation factor in computing certain general and administrative expenses.

F. Both MPC and the MCC used a 46% tax rate in amortizing deferrals arising from the use of interperiod tax allocation rather than the rate used in deferring such amounts.

G. MPC utilizes $2,008,766 of prior unused investment tax credits, the MCC does not.

70. As a result, the pro forma adjustments, Consumer Counsel recommended an increase of $15,684,000.

71. The Commission finds the following:

A. An allowance of $68,000 per year to establish an injuries and damages reserve is adequate. Reasoning forwarded by witness Hess provides justification as follows:

> In 1978 the company changed liability insurance coverage from $100,000 deductible to $500,000 deductible to avoid a projected increase in insurance premiums. When the decision to change coverage was made, it was also decided that the company should establish a $1 million injuries and damages reserve by accruing $50,000 per month for

20 months. However, the company subsequently decided that a $500,000 reserve would be adequate and this amount was accrued by a $50,000 charge for 10 months. For rate case purposes, the company assumed that $600,000 would be accrued in 1978 of which $228,000 was allocated to natural gas operations and included in test year expenses.

The entire accrual could be excluded for rate making purposes on the grounds it is a non-recurring expense. However, workpaper 51-4520, page 22 shows that the change in coverage which necessitated the accrual of the reserve produced an estimated annual savings in premiums of $178,000 of which $68,000 is allocated to gas operations. From that information, I conclude that it would be reasonable to charge natural gas customers $68,000 for 3 years to allow the company to accrue the reserve necessitated by the change in coverage. (Direct, page 12, 13)

B. The Commission accepts the results of the Gilbert Associates j inc., depreciation study with the exception that negative 40% salvage values be used for gas services rather than negative 7096 salvage values.

The Commission is skeptical of the procedure used by MPC in allocating costs between new service lines when replacement occurs. lines and removal of old service lines when replacement occurs. MCC witness Hess states:

When a bell hole is dug to attach the new service to a gas main and to disconnect and cap the old service it is necessary to decide what part of the cost of digging that hole should be charged to the new service and what part should be charged to the cost of removing the old service. In response to MCC data request 20 the company said that most divisions use the actual time as listed on the daily time ticket and mileage report for determining the amount to be charged to the cost of removal, but it should be obvious that it is not clear cut in all instances as to what is installation cost and what is removal cost. Moreover, the company also said that some divisions use "guidelines" of charging between 20 and 33 percent of the cost to removal. (Direct, p. 17)

The Commission is aware that the actual retirement experience shows a negative 70% salvage based on the above mentioned "guidelines. " It is also aware, however, that a negative 40% salvage factor was found in a recent MDU proceeding, Docket 6441. The logical conclusion is that the two utilities use different guidelines in apportioning costs between old and new services. Since the integrity of the guidelines supporting the negative 70% salvage factor has not been sufficiently demonstrated, the Commission finds negative 40% salvage values for gas services to be more reasonable.

Another point of contention with regard to the depreciation study is use of the units-of-production method for certain production properties by MPC and use of the average life depreciation method for those properties by witness Hess. Mr. G. Robert Faust of Gilbert Associates, Inc., whose testimony on depreciation is sponsored by MPC, states that the units-of-production method should be used:

"Q. What is the unit of production method that you used for the investments in Leaseholds and Other Land Rights and Producing Wells?

A. The unit of production method is simply another form of remaining life depreciation, and is used because the recoverable MCF of gas reserves is more easily identifiable than is the terminal retirement date of the producing wells. This is because as the wells become more and more depleted, the rate of extraction tends to become less and less, and at some point in time a decision must be made with respect to the additional investment required to provide higher pressures which will permit the economic extraction of additional gas, and thus perhaps change the terminal retirement date.
The unit of production method provides a fair and equitable allocation of capital cost to the periods of customer usage, and at the same time as the receipt of revenues. The reliability of the method is assured by the fact that the Company continuously monitors its proved reserves and reports them annually to various governmental authorities. A depletion rate per MCF is calculated by dividing the net unrecovered investment (e. g . - the gross investment less the depreciation accrued to date) by the estimated recoverable MCF of gas reserves. " (Direct, p. 8, 9)

The unit-of-production method provides for depreciation expense on a unitized basis i.e. the more units produced the greater the depreciation expense. This provides a more accurate matching of revenues and expenses than does the average-life method. Under the average life method a gas well may not be producing gas but yet have depreciation expense associated with it.
Mr. Hess is concerned with changing depreciation methods from the average life method to the units-of-production method on existing properties:

I am not opposed to the use of the unit of production method if it has been consistently applied to a given field. The Canadian-Montana Gas Company has used the unit of production method and it should continue to do so. If the Montana Gas Company wants to switch to the unit of production method, I would suggest it do so for new gas fields found in the future. That would provide a more orderly transition than the application of the unit of production method to gas fields which historically have been depreciated using life methods. (Direct, p. 15)

It should be noted, however, that the same total depreciation will accumulate over a properties life under both methods. Only the rate of accrual is different. The units of production method more accurately matches gas revenues and expenses and the Commission, therefore, adopts it.
C. Property taxes as presented by the MCC are accepted. These taxes constitute the 1977 property tax expense on MPC records and are based on property values, net income and capital outstanding at December 31, 1976 adjusted for known mill levy changes, whereas those presented by the Applicant constitute the 1978 property tax expense on MPC records and are based on property values, net income and capital outstanding at December 31, 1977.
The Commission finds this issue to be somewhat clouded, and is investigating a more satisfactory method of reflecting property taxes expense in rates. Net income and capital outstanding at December 31, 1977 appear to more closely match rate case amounts in these categories than the same amounts reported at December 31, 1976. However, property values at December 31, 1977 would match a year end 1977 rate base, which the Commission has not accepted. Averaging the property tax component from 1976 and 1977 may create a distortion because the Department of Revenue assigns different weighting to it in the three part formula from year to year. In lieu of a better method in this record, the Commission accepts the test year property tax expense adjusted for known mill levy changes.

D. The weighted average cost of debt multiplied by the rate base, plus construction work in progress (CWIP) is accepted as the correct method in computing interest expense for income tax purposes, as advocated by the MCC . The Applicant presents actual interest expense paid and attributable to the natural gas utility to compute income taxes. This method may not accurately reflect interest expense associated with the capital structure and rate base on a test year basis because the debt component in the capital structure as accepted may frequently be larger (but not necessarily proportionately larger) than it was during the test year, the period of valuation for rate base purposes.
Tax benefits associated with CWIP interest expense have been deferred in this proceeding. The Commission is of the opinion that since the current ratepayer is not called upon to support CWIP Pin the rate base, that the tax benefits associated with CWIP P interest expense be deferred, so that the ratepayer who will support current CWIP when it becomes plant in service will receive the tax benefits associated with this item.

E. The inflation factor used in computing the adjustment to office supplies and expenses is not accepted. This Commission disallowed a similar inflation adjustment in a recent Montana-Dakota Utilities, Inc. proceeding, Docket 6567. Such inflation adjustments are inconsistent with the Commission's position of a test year adjusted for known and measurable changes. The rate and effects of inflation on the Applicant cannot be determined with any certainty.

F. The Commission finds that deferrals resulting from timing differences should be amortized to income at the same rate at which they were deferred. To do otherwise will overstate accumulated balances and misstate net income.

This area of concern arose recently due to the tax rate change from 48% to 46%. revenues allowing deferrals In prior years, ratepayers provided of the tax consequences of timing differences at 48%. If these deferrals were amortized to income at 46%, ratepayers would lose the advantages of lower rates associated with the 2% differential. The American Institute of Certified Public Accountants provides two methods to account for deferred tax amortization:

> In computing the tax effects referred to in paragraph .35 timing differences may be considered individually or similar timing differences may be grouped. The net change in deferred taxes for a period for a group of similar timing differences may be determined on the basis of either (a) a combination of amounts representing the tax effects arising from timing differences originating in the period at the current tax rates and reversals of tax effects arising from timing differences originating in prior periods at the applicable tax rates, reflected in the accounts as of the beginning of the period; or (b) if the applicable deferred taxes have been provided in accordance with this section on the cumulative timing differences as of the beginning of the period, the amount representing the tax effects at the current tax rates of the net change during the period in the cumulative timing differences. (AICPA Professional Standards, \Volume 3, p. 13, 315)

MPC currently uses method B. On a prospective basis the Commission finds method A more desirable to the ratepayer because timing differences are amortized to income at the same rate at which they were deferred.

G. The Commission finds that the prior unused investment tax credits should not be reflected. The Commission realizes that the Applicant is in a negative tax position and has not utilized these investment tax- credits to reduce - taxes.

The Commission also realizes that MPC files a consolidated federal income tax return and that the other utility or nonutility companies of MPC may utilize the unused tax credits of the gas utility. Without evidence on the record regarding utilization of the credits, the Commission will not make an allowance for the credits which might, in fact, not be lost.

72. The Commission finds the following cost of service, as adjusted:

(000)	Actual 1977 Consolidated	Commission Pro Forma Adjustments	Cost of Service, as Adjusted
GROSS REVENUES	90,576	5,116	95,692
COST OF SERVICE			
Production - Operation (Excluding Royalties)	2,003	-0-	2,003
Production Operation - Royalties	4,880	28	4,908
Maintenance	711	-0-	711
Exploration & Development	3,206	950	4,156
Other Gas Supply	56,344	9,187	65,532
Storage - Operation	154	-0-	154
Maintenance	82	-0-	82
Transmission - Operation	446	-O-	446
Maintenance	376	-0-	376
Distribution - Operation	1,614	-0-	1,614
Maintenance	687	-0-	687
Customer Accounts Expense	1,116	85	1,201
Customer Service & Information	148	40	188
Sales Expense	134	(57)	77
Administrative & Genera	3,912	349	4,261
Labor Adjustment		836	836
Clearing Adjustment		65	65
Postage Adjustment		8	8
Sub-total	75,813		87,304
Depreciation	4,272	1,180	5,452
Amortization of Investment Tax Credit - Dr.	-0-	-0-	-0-
Amortization of Investment Tax Credit - Cr.	(73)	(1)	(74)
Provision for Deferred Income Tax Lib. Depr.	932	(22)	910
Deferred Inc. Tax-Amort. of Certain Purch. Nat. Gas Properties	1,177	(990)	187
Provision for Deferred Income Tax - Corp. Lic. Tax	333	(218)	115

Provision for Deferred Income Tax			
Constr. Work in Progress			
Interest Exp.	-0-	32	32
Amortization of Property Losses	72	-0-	72
Taxes Other than Income Tax	3,117	389	3,506
Income Taxes - Federal & Canadian	(3,298)	(2,772)	(6,070)
Income Taxes - Corp. License Tax	(1,586)	442	(1,144)
Sub-total	4,946		2,986
Total	80,759	90	290
Utility Operating Income	9,817		5,402
Amortization of Profit on Debt Reacquired at Discount	-0-	45	45
Balance for Return	9,817		5,447

73. The following rate base presentations appear on the record in this proceeding:

Phase I (Revised) Prefiled Testimony
(000)

	Applicant	Consumer Counsel
Utility Plant in Service		
Gas	165,748	163,847
Common	7,217	7,216
Total	172,965	171,063
Accumulated Depreciation & Depletion		
Gas	59,360	59,463
Common	1,336	1,336
Total	60,696	60,799
Total Net Plant	112,270	110,264
Gas Stored Underground	16, 709	15,544
Plant Held for Future Use	2,574	2,574
Less: Customer Contributed Capital		
Accumulated Deferred Income Taxes		
Liberalized Depreciation	2,039	2,059
Amortization of Certain Natural Gas Properties	334	755
Accumulated Deferred I.T.C. (Pre 1971)	511	511
Customer Advances for Construction	905	904
Total Customer Contributed Capital	3,789	4,229
Plus: Working Capital		
Gross Cash Requirement	2,903	2,894
Credit for Accrued Taxes	(1,075)	(1,100)
Prepayments - Net	6,672	4,774
Materials & Supplies	1,428	1,521
Total Working Capital	9,928	8,089
Total Gas Utility Rate Base	137,692	132,242

74. The Commission finds the following:

A. A major difference between the rate presentation of MCC witness George F. Hess and MPC witness J. W. Heidt is the use of a 13 month average property factor by Hess and a beginning and end of year average by Heidt. The Commission accepts the average test year concept advocated by both, and finds that a

monthly breakdown provides a more accurate average property value for the test year. The increased accuracy of the monthly figures also provides a better matching of the property and the revenue (cost of service) produced by that property throughout the test year.

B. The Commission finds the Applicant's method of accounting for accumulated deferred income taxes with regard to amortization of certain natural gas properties to be more reflective of a pro forma gas supply mix. Mr. Hess uses amounts reported for 1977-which do not account for pro forma adjustments to the gas supply mix. The Commission therefore accepts the Applicant's method.

C. In computing working capital Hess has offset prepayments made by the Applicant with prepayments made by others to the Applicant MPC has not. The Commission finds prepayments made by others to the Applicant to be a source of funds, which is available to the Company for use as working capital, and therefore accepts the MCC's computation.

75. The Commission finds the following rate base, as adjusted:

Montana Power Company
Gas Utility Rate Base OCC
1977 Test Year
(000)

	1977 Actual (A)	Adjustments (B)	1977 Pro Forma (C)
1. Utility Plant in Service			
2. Gas	$163,847	$ -0-	$163,847
3. Common	6,673	543	7,216
4. Total	170,520	543	171,063
5. Accumulated Depreciation and Depletion			
6. Gas	59,338	252	59,590
7. Common	1,189	147	1,336
8. Total	60,527	399	60,926
9. Total Net Plant	109,993	144	110,137
10. Gas Stored Underground	16,018	(497)	15,521
11. Plant Held for Future Use	2,574	-0-	2,574
12. Less: Customer Contributed Capital			
13. Accumulated Deferred Income Taxes			
14. Liberalized Depreciation	2,040	(1)	2,039
15. Other	755	(327)	428
16. Accumulated Deferred Investment			
17. Tax Credits (Pre-1971)	511	-0-	511
18. Customer Advances for Construction	904	-0-	904
19. Total Customer Contributed Capital	4,210	(328)	3,882
20. Plus: Working Capital			
21. Gross Cash Requirement	2,657	294	2,951
22. Credit for Accrued Taxes	(1,074)	(26)	(1,100)
23. Prepayments - Net	1,803	3,494	5,297
24. Materials and Supplies	1,521	-0-	1,521
25. Total Working Capital	4,907	3,762	8,669
26. - Total Gas Utility Rate Base	$129,282	$ 3,737	$133,019

76. The Commission finds a revenue requirement of $15,489,000 as follows:

	(000)
Gas Utility Rate Base	133,019
Overall Rate of Return	X 9.95%
Overall Return	13,235
Pro forma Balance Available for Return	- 5,447
Return Deficiency	7,788
Revenue Deficiency	15,489
Consumer Counsel Tax @ .15%	- 23
Sub-total	15,466
Corporation License Tax @ 6.75%	- 1,044
Sub-total	14,422
Federal Income Tax @46%	- 6,634
Balance for Return	7,788

Federal Wage and Price Guidelines

77. MPC's witness J. J. Burke submitted exhibits relating the proposed - increases in gas charges to the guidelines of the Council on Wage and Price Stability. MPC certified its compliance. This was not challenged by other parties in the proceeding.

CONCLUSIONS OF LAW

1. The Montana Power Company (Applicant) is a public utility furnishing water, electric and natural gas service to consumers in the State of Montana .

2. This Commission has jurisdiction of the rates and charges for and the conditions under which utility service is rendered in Montana.

3. The rate base determined in Finding of Fact No. 75 reflects original cost depreciated values for MPC's natural gas utility.

4. An average year rate base is an appropriate means of measuring the value of Applicant's properties at risk during the test period. Use of monthly figures rather than an average of beginning and year end figures in determining rate base is within the Commission's discretion.
The Commission's rule on minimum filing requirements which provide for beginning and year end figures does not preclude its adoption of an average year rate base predicated on monthly averages.

The rules governing minimum filing requirements are procedural. As minimum information requirements they cannot be binding on the Commission in its rate making determinations. The Commission is free to use the most accurate information made available to it.

5. The allowance for Applicant's gas supply costs is sufficient to allow Applicant to prudently select its gas sources, while at the same time balancing low and high price sources in such a way as to minimize the cost impact on ratepayers.

6. A rate of return based on the most recent capitalization available is fair and reasonable.

7. For purposes of determining capital structure it is fair and reasonable to define net plant in a manner consistent with that used in computing rate base.

8. In determining a fair rate of return, the Commission need not include compensation for market pressure and issuance costs related to common stock offerings when the evidence shows that no such offerings are contemplated in the near future.

9. The rate of return allowed in this order meets the constitutional requirement that a public utility's return must be "commensurate with returns on investments in other enterprises having corresponding risks and sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital. " Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591, 603 (1944). It likewise complies with the dictates of 69-3-201 MCA 1979, which provides that a public utility has a right to receive a fair return on the value of its property used in service.

10. Test year 1977 conditions, reflecting normalization and adjustments for known changes, including gas costs in effect in 1979 provide an accurate and reliable basis upon which just and reasonable rates for natural gas service may be established.

11. The rate increase approved by this Order is a final rate increase and decision with respect to Applicant's revenue requirements in this docket. Any

subsequent order in this proceeding which modifies the allocation of that revenue requirement among the customer classes and customers of Applicant shall be deemed a Final Order on the subject of rate design and shall not alter Applicant's revenue requirement nor entitle customers to a refund based on the difference between the rates established in this Order and any rate structure design which might be found subsequently by the Commission.

12. Since the Commission has not yet received evidence on rate structure in this docket, the rate structure currently in effect is the only one which can be used as a basis for apportioning the increase authorized by this order to the various customer classes.

13. Notice of Public Hearing given by the Commission in this docket satisfies the requirements of the Montana Administrative Procedure Act and complies with all requirements of Title 69, MCA.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Applicant submit natural gas rate schedules and contract rates designed to produce the gross natural gas revenues found to be necessary to provide the return authorized herein. Such rate schedules and contract rates are to be effective upon approval by the Commission. Applicant shall allocate the revenue increase granted by this Order in the manner required for the revenue increase granted by Order 4350D in Commission Docket 6454.

2. Applicant shall continue to file monthly reports of its sources of natural gas supply, and the prices at which this supply is obtained.

3. All motions and objections relating to the first phase of this docket not previously ruled upon are denied.

DONE IN OPEN SESSION THIS 25th day of June, 1979 by a vote of 4-1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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GORDON E. BOLLINGER, Chairman

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CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner
(Special Concurring Memorandum Attached)

GEORGE TURMAN, Commissioner

JAMES R. SHEA, Commissioner
(voting to Dissent)

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTE: You are entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order.- If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Com mission Rules of Practice and Procedure, esp. 38-2.2(64)-P2750, ARM.

SPECIAL CONCURRING MEMORANDUM
BY Commissioner Thomas Schneider

The OPEC actions, Canadian border price increases, and the natural gas pricing provisions of the National Energy Act have substantially impacted the Montana consumer. With no control over these national and international actions, the state Public Service Commission is left to reflect those realities in utility rates. The Montana Commission is responsible by law to allow utility rates adequate to cover a utility's legitimate expenses, plus provide an opportunity (not a guarantee) to earn a fair return on its investment.

The rapid escalation of energy prices, including utility prices, has caused consumer outrage, distrust, and fear. The impact of these increases upon all consumers is serious, but upon those senior citizens and low-fixed income consumers it is crushing. A profound social crisis exists when consumers pay 30 50 percent of their $204 per month income in utilities. While their income level is unconscionable, the "Proposition 13" mentality has blunted any meaningful relief from Congress or the state legislatures. Out of the deepest frustration and sincerity these senior citizens have requested assistance from the P.S.C. what they have received is a Commission which is consistently and aggressively consumer oriented to the full extent of the law. But that clearly is not adequate to address their income crisis. Rates continue to increase for national and international reasons, despite application of among the most consumer oriented practices and theory in the nation.

A very real danger exists! Consumer distrust and hostility can be most directly applied to the PSC who actually allow (for whatever reason) the increased rates. The situation is ripe for political expediency; demagoguery.

Consumers will surely be tempted to grasp at anything or anyone offering promises of rate relief.
The dissent of Commissioner Shea is designed to insure that he is once again displayed as t lone consumer advocate. I consider Mr. Shea's action blatantly irresponsible. Such action is a cruel hoax on the consumers of Montana. The $7 million revenue increase advocated by Commissioner Shea would permit a return to common stock of 2.9 percent! That is illegal by any standard. However, the probable and understandable consumer reaction: "Jimmy is the only one fighting for the consumer".

Carried to its logical conclusion, the frustrated electorate may select a majority of demagogues to "serve" on the PSC -- the elected Commission will soon thereafter disappear! Punitive and irresponsible action, regardless of motive, cannot endure in a system of laws.

Stated differently, the performance of the Public Service Commission as a consumer protector should be competently evaluated. Judged by the simplistic standard of whether it has granted rate increases, the Montana PSC is absolutely doomed to fail! However, judged by any realistic standard such as utility profits, market to book ratios, historical test years, elimination of customer contributed capital from rate base, rate structure reforms, etc. (those standards which knowledgeable consumer advocates such as the late Senator Metcalf would use) the existing Montana PSC would rate progressive, aggressive, and consumer oriented. The best empirical evidence of our performance lies in the simple examination of utility stock price. Both MDU and MPC stocks are selling substantially below book value or "blue book". Whether or not consumers believe that the PSC knows how much utilities are earning, the investors know precisely. Investors are by their actions discounting the value of those stocks below their blue book! Similarly, the credit rating of MPC was reduced from AA to A- primarily because of its earnings performance and the investment service ratings of the Montana PSC as punitive! The message is exceedingly clear -the Montana PSC is not handing out any profit favors.

Phase II, commencing July 10, addresses the issue of rate design -- how the revenue increase will be distributed to the residential, commercial, and industrial customer classes. The range of expert testimony in the record to be considered in July is from the MPC and Anaconda Company approach to the Consumer Counsel's volumes approach to the low income organization's (HRDC) "lifeline"
testimony. This rate design hearing and ultimate decision by the PSC will have a substantial bearing on the rates consumers will actually pay this winter! The upcoming hearing promises a competent confrontation by acknowledged experts on the critical issue of our times -- rate design.

THOMAS J. SCHNEIDER
Commissioner

DISSENT OF
COMMISSIONER JAMES R. SHEA

MONTANA POWER APPLICATION

Docket #6618

Order #4521

June 25, 1979

WHEN WILL IT STOP AND HOW MUCH IS ENOUGH?

Docket 6618

In 10 years, the cost of purchased natural gas from Canada has increased over one thousand percent (1,000%).

The time has come to say no to high prices. Natural gas supplies and prices have been manipulated. A few years ago, there was a shortage of Canadian gas. Now just two or three years later there is a great surplus. How come?

Not only is the Canadian price escalating very rapidly, but Montana producers are asking the Canadian price for their product.

Utilities are bidding high prices for natural gas and, in fact, bid most often the highest price; this forces prices upward.

If a rate increase is granted to the Montana Power Company in this docket, rate increases will immediately be given to the Great Falls Gas and other utilities in the state which purchase gas from the Montana Power Company.

No where has it been expressed in this order the public concern about high natural gas prices – yet hearings were held in Great Falls, Havre, Missoula, Kalispell, Butte, Bozeman, Livingston, Anaconda, Helena and Red Lodge. Large

numbers of persons testifying at these hearings were strongly opposed to price increases. The evidence the public gave was that a twenty-three (23%) increase, or an increase of any amount, would impose an undue hardship upon a great number of people.

To invite the public to these hearings and not to consider seriously the testimony they present is counterfeit, a sham, and a mockery. The hearing process is counterfeit. The public is led to believe they have hope by appearing at the hearings, when their appeals are not even considered.

The Commission received hundreds of letters and several thousand names on petitions in opposition to the rate increase, but these are not considered. Where then is the representative form of government that we should cherish?

To continue with future hearings under this method would only add to the falseness of the procedure.

For example, in Bozeman, a public hearing was held on April 27, 1979. A transcript of 86 pages of public testimony is before this Commission--all testimony is in opposition to the rate increase.

BOZEMAN TRANSCRIPT

On page 64 - Mr. Schwartz, public witness: "People are helplessly hoping - I guess they are looking for something that isn't there. There is no way for them to catch up, or even get even, and people are just slowly coming to realize that the system is not working and they don't know and don't have the ability to change it."

Throughout the transcripts held in the various cities, it will state that utility costs are taking one-third (1/3) of many incomes and people have to wrap blankets around them to conserve fuel.

Michael Fieldman of the Bozeman Human Resources said - pages 19 through 31:

"He believes the physical health and the psychological health of many people will be affected by high utility costs. He said people are worried and scared about the cost impact on their lives. ''

Jim Shorten - page 8:
"People are not eating right because of high utility bills."
These witnesses of Human Resources said that hundreds of families in the Bozeman area are finding it most difficult to survive.

At the hearings in Livingston, Butte, Anaconda, and Missoula there is a very large amount of testimony which the public gave that states: "People are very much against the increase because of the burden it will place upon them."

No corporate officers of the utility were at the public hearings in my district.

How will the officers of the Montana Power Company be able to understand the intense concern of the public if they do not attend hearings to hear what the public has to say relative to proposed rate increases?

As of this date transcripts or the public hearings have not been ordered by the Montana Power Company, so apparently they are not concerned with the public view.

1. Where and when are these natural gas rate increases going to stop?
2. Where-can the public go to seek relief?
3. Are the elected public officials responding to the pleas of the public?
4. Is the Commission evenly and fairly considering the opponents of the increase equally with those proposing the increases?
5. Should not the end user, the consumer, be given a little more say in what he has to pay for the product?

The record in this case clearly shows that man consumers are going hungry, going without medicines and going without proper food to pay their energy costs.. See Anaconda and Butte Transcript

Rates must be just and reasonable to the consumers, as well as co the utility.

In my opinion, not until the government assumes a firm and stern role in denying rate increases will the public's interest be protected.

More denials of increases must be made in order to stop these tremendous escalations of prices.
If nearly all costs-and managerial decisions of utilities, whether right or wrong, are approved by this Commission, then the utilities have in effect a cost plus operation at the consumers expense.

"The utility under these circumstances just can't lose."
This brings to mind an article in the Missoulian on February 16, 1979. Mark Jennings, Vice-Chairman 'of the Retired Teachers Legislative Committee stated:

"Too often state regulatory bodies and agencies with rate making powers appear to be mere captives of the industries they purport to regulate in the public interest."

Mrs. Pat Sias, of the Senior Citizen Legislative Committee of Helena, stated on page 52 of the Helena hearing: that she believed the Public Service Commission was the place to go to protest rate increases. She said she knew of no other place to go other than to government.

In the Consumer Counsel briefs, no mention is made of the many public hearings that were held.
Are these hearings becoming exercises in futility? Are we only to listen to high paid consultants of utilities and the Consumer Counsel and not the Montana public that pays the bill?

Some of the issues in the case are:
1. Take or pay contracts. This is a provision in the Canadian contracts which stipulates that the Montana Power Company will take large quantities of gas from Canada. If gas is not taken, the Montana Power Company will have to pay Canada regardless. This same provision is then inserted in contracts that Montana Power Company has with large Montana industrial customers. These contracts do not tend toward conservation of a valuable resource.

2. The increase is far and beyond the 7 to 8% increase as recommended by-the President to curb inflation.

3. In the past few years several large industrial customers of the Montana Power Company switched from gas to electricity and coal. This was because of the false energy shortage and also because of rising gas prices. If this rate increase goes into effect Malmstrom Air Force Base and some large industrial customers might change to coal, creating a burden upon the residential and commercial customers of Montana Power Company, as most likely they would be asked to pick up the difference in revenues.

4. Utility companies throughout the United States are gulping up fifty (50%) percent of all of the avail able capital in the United States. From 1974 to 1978, over $386,000,000 in additional plant investment has been made by the Montana Power Company. High plant costs and high interest costs place a great burden on the Montana Public.

It appears that the $72,692,000 construction budget for the utility is excessive for the years 1979 through 1983.

5. The cost of gas adjustment clause, sought by the MPC -in this case could prove perilous to the Montana consumer.

"This would further place the Montana consumer at the will of the Canadian government as to prices."

6. Montana Power management did not pursue the Tiger Ridge Gas Field a few years ago. In my opinion, this was an imprudent decision--one that perhaps cost the consumers of Montana in price and supply.

7. The large increases in corporate officers' salaries in the past four years do not relate well to those of low and middle incomes that are finding energy costing too much to meet.

The right of the people to assemble and to petition in an orderly manner, for the redress of grievances is embodied in the Declaration of Independence, a day we will celebrate next month (July 4, 1979).

If our Montana rate payers and, in the most part, citizens come forward and present their grievances to the Montana Public Service Commission, then I believe we should hear their pleas and make strong efforts to help these same petitioners in order to have a government responsive to the needs

of the people.

I would particularly urge anyone reviewing this case to read the public transcript of the hearing held in Butte, Livingston, Bozeman, Missoula, and Great Falls.

If one does so, I am confident the reader will find that the public is greatly concerned about the ever escalating price of natural gas, and their concerns about not being able to pay for gas during the long cold Montana winters.

1. The setting of just and reasonable rates for natural gas involves a balancing of investor and consumer interests.

2. The borrowing of large amounts of capita!' by the Montana Power Company, in excess of the public's ability to pay, is one of my primary concerns. The costs of the huge amount of 'borrowed capital, plus the costs of the large amount of interest, are forced upon the consumers. Once the funds are borrowed and the mortgage is placed, the utility and the bond holders have little to lose. All they have to do is sit by while the customers are-saddled with high rates.

3. There is nothing in this record that proves to me that the Montana Power Company has negotiated the very best contract with the Canadian Government. "Charge all the traffic will bear seems to be the order of the day."

4. The creation of the Public Service Commission was primarily to protect the public interest. Where is the public's interest spoken to in this order? - Not once, and there are hundreds of pages of public testimony.

5. Natural gas is a product which the public has come to rely upon and tee 'dependent upon, primarily because of utility advertising and the utilities' promotion seeking new customers.

6. Montana Power should use more low cost gas out of their reserves for Montana users. Out-of-state expert witnesses are costing the rate payers as must as $80.00 an hour. These high priced consultants of the Montana Power Company tend to further cause the public concern over expenditures made by the utility.

7. The 1978 Annual Report of the Montana Power Company shows that earnings have increased 30% and dividends have increased 6.7% during that period.

The record of public testimony at various hearings will show that if this rate increase goes into effect, many people will find such an increase exceedingly difficult to bear.

A pyramiding effect takes place as prices charged for gas to industrial and commercial firms is passed on to consumers. Also utility prices passed on to city, county, state, and federal agencies having offices in Montana is a further burden to the public. Then too, all of our grade schools, high schools, colleges, and universities will have a very high cost thrust upon them. These costs will be borne by rate payers and tax payers.

Not until this government realizes the eroding effects on people's lives that energy costs have and take strong positive steps to correct this, will inflation be abated.

I would agree that utilities have many difficult decisions to make. It is not an easy road, but utilities and other large companies are in a much better position to make a solid contribution to the controlment of inflation than other elements of society.

These are very critical times - witness the National Truckers Strike this month June 1979. All brought about because of energy needs and prices. Here is some Testimony taken from the Anaconda Hearing held May 8, 1979.

JANE ANDERSON called as a witness on her own behalf, having been first duly sworn testified on her oath as follows:

COMMISSIONER SHEA: You may give your statement.

THE WITNESS: Representative--Menahan, asked me to read a statement. Is that possible?

COMMISSIONER SHEA: Sure.

THE WITNESS: Dear Sir, I would like to go on record opposing any rate increase in utility rates.
Utility increases at this time are inflationary and create a further hardship to people with fixed income. It is my opinion that no further rate increases be granted until the Public Service Commission audits the Power Company and a complete determination made before any increase is granted. Signed, Representative William "Red" Menahan.

COMMISSIONER SHEA: We will have that statement entered into the record. And, he is Representative of Deer Lodge County is he not?

THE WITNESS: Yes.

COMMISSIONER SHEA: Now, Mrs. Anderson, do you wish to make a statement of your own?

THE WITNESS: Yes, I do.

COMMISSIONER SHEA: You may proceed.
THE WITNESS: Well, I am the Administrator of the Area Five Agency on Aging in Anaconda. We are the agency for elderly people in a six county area. We would like to take the position that we are opposed to any rate increase by the Montana Power.

With your indulgence I would like to read several of these statements that we have. These statements come from Deer Lodge, Montana. They were obtained at the time that Senator Melcher had his hearing in Missoula. We asked that some of the elderly answer these three questions. What was your Montana Power bill for the month of December, 1978? What percentage is this your total monthly income? And, what is your approximate cost for drugs per month. We asked the last question because we have had many calls from pharmacies saying that the elderly are not having their prescriptions filled.

The first one is 94 years old. She receives some help from Family Help otherwise she does not need medical attention. Her power bill for the month of December was $62.50. It was 39 percent of her income. Her drugs was $20.00 per month. The second one worries a great deal about not being able to pay bills. The power was $59.88; It was 26 percent of her income and her drug bill is

$6.00 per month. This one, cutting food and medicine. The power bill was $43.00 per month for the month of December. It was 24 percent of the income. The drug bill was $12.00. The comment on this one.
Has a very low income and she receives meals on wheels. The power bill for the month of December was $112.00. It was 36 percent of her income. And, the cost of drugs was $12.00. This one the power bill was $63.00. It was 42 percent of the income. The drug bill was $15.00. Cutting food and medicine. Why should our old suffer when our government is so wasteful? The next one said she had a very low income. The oil, was $31.64. It was 2 percent of the income. And, the drug bill $20.00. This one, two people, a husband and wife. One is 81 and the other 830. They keep the house at 65 degrees. They use blanket to keep warm when sitting. . Their bill was $83.00 It was 29 percent of their income. And, $15.00 per month for drugs. This one is 82 years old.

Keeps house at 68 degrees. Power bill was $50.00 21 percent of the income and $10.00 for drugs.
This one very careful about food and the house very cold. The bill was $86.22. 25 percent of the income. And, $20.00 for drug. This one they receive meals on wheels. There are two people living in a trailer house. They would not have enough to eat without meals on wheels. Their bill was $61.99. Nineteen percent of the income. Their 10 drug bill is $200.00 per month. This one is struggling to keep warm. [ne power bill was $58.37. Seventeen percent of the income. And, 13 $20.00 for drugs. This one very careful about food. Hardly any meat; $55.25 for the bill. 26 percent of the income. And, $25.00 for drugs. This one, keeps heat about 65. Stays in bed very late to cut heat. $74.00 was the bill. 25 percent of the income. And, $65.00 for drugs. This one was $99.83. It was twenty percent of the income And, $55.00 for drugs.

It is our position at the area agency that something must be done to help our low and fixed income elderly. I don't know whether many of them can survive another winter like the last one. They pay their power bills first. The subsidy that they have for the energy intervention program, or crisis intervention program help very few of the elderly because they pay their bills. They are going without food. They are going without medicad I know that some of our elderly are in nursing homes and probably are dead because of the inability to buy medications that are necessary. I answer any questions.

COMMISSIONER SHEA: Mrs. Anderson, these statements that you read, to the best of your Knowledge you know that they are factual?

THE WITNESS: They are factual. They are factual to the best of my knowledge.

COMMISSIONER SHEA: your workers?

THE WITNESS: They were taken by .Mrs. Ethel McGill our coordinator in Deer Lodge, Montana
COMMISSIONER SHEA: Are you a personal user of gas as far as having gas in your home?

THE WITNESS: Yes, sir, I am.

COMMISSIONER SHEA: Do you have any personal feeling as far as this proposed increase?

THE WITNESS: I am going to put in a wood stove.

COMMISSIONER SHEA: I don't have any other questions. Commissioner Schneider, might have some.

COMMISSIONER SCHNEIDER : I want to thank you for your testimony.

THE WITNESS: Thank you.

COMMISSIONER SHEA: You may be excused.

WITNESS JANE ANDERSON, EXCUSED